LIQUOR CONSUMPTION PATTERNS IN SOUTH AFRICA

Article written by Elias Holtzkampf

1. OVERVIEW (2006/07, 2010/11, 2011/12 and 2012/13)

Table 1 – OVERVIEW OF THE ALCOHOLIC BEVERAGE MARKET

Vol = '000L
Val = R'000

CATEGORY	*2006/2007 VOLUME*	*2006/2007 VALUE*	*2011/2012 VOLUME*	*2011/2012 VALUE*	*2012/2013 VOLUME*	*2012/2013 VALUE*
Brandy	46 600	4 102 664	37 100	4 930 961	33 400	4 762 840
Gin	6 300	483 714	5 200	641 108	5 100	667 135
Cane	2 300	124 752	1 700	150 195	1 500	144 465
Vodka	13 925	960 547	17 100	1 898 955	18 800	2 291 908
White Spirits	22 525	1 569 013	24 000	2 690 258	25 400	3 103 508
Liqueurs	10 200	892 500	9 600	966 500	9 870	1 058 721
Whisky	30 600	3 745 746	35 700	6 495 972	40 000	7 766 053
Rum	4 900	552 475	5 900	906 299	5 850	952 536
TOTAL SPIRITS	**114 825**	**10 862 398**	**112 300**	**15 023 490**	**114 520**	**17 643 657**
Sparkling Wine	**8 000**	**459 200**	**8 320**	**726 254**	**8 075**	**725 620**
Super Premium Wine	44 000	1 870 440	47 000	2 739 246	48 000	2 931 840
Premium Wine	70 000	1 000 300	87 500	1 764 908	91 150	2 014 415
Standard Price Wine	121 000	999 460	92 400	1 216 360	91 000	1 285 830
Perlé	43 600	715 476	55 600	1 289 470	56 350	1 431 854
TOTAL UNFORT's	**278 600**	**4 585 676**	**282 500**	**7 009 984**	**286 500**	**7 663 939**
FORTIFIED WINE	**29 660**	**889 800**	**28 695**	**1 198 092**	**28 175**	**1 256 042**
RTDS	**302 000**	**5 152 120**	**385 000**	**9 656 440**	**410 000**	**11 147 268**
Sub-Total	**733 085**	**21 949 194**	**816 815**	**33 614 260**	**847 270**	**38 436 524**
Beer	**2 778 600**	**25 007 400**	**2 980 000**	**40 355 520**	**3 025 000**	**45 242 353**
GRAND TOTAL	**3 511 685**	**46 956 594**	**3 796 815**	**73 969 780**	**3 872 270**	**83 678 877**

1.1. VOLUME

A trend that emerged over the year is that quite a few bottle stores were purchased by Chinese. Also, beer is now available in a 12 pack size.

In volume terms Beer constitutes just under 80 per cent of the market (Table 2 – Volume). Over the past six years, in percentage terms, both Spirits and Wine have declined. Between 2007/2008 and 2009/2010 Spirits declined in volume terms by nearly 8 million litres. Due to good growth in Vodka and Whisky the spirit market has picked up in volume terms and now amounts to 114.5 million litres. Over the six year period the Wine market increased by 8 million litres. The biggest growth came from RTDs with a volume growth of 35.8% (108 million litres) over the five year period. The RTD share of the market has increased from 8.6% to 10.6%.

'Ales' are excluded with no trustworthy data being available. However, the Western Cape police estimated the volumes at 120 million litres. Furthermore, as part of research that SAWIS conducted in various bottle stores on price levels of the Lower Priced Wine, three bottle stores replied "we only sell ales at the lower price level".

Table 2 - MARKET SHARE OF ALL LIQUOR CATEGORIES

	Volume %			*Value %*		
	2006/2007	***2011/2012***	***2012/2013***	***2006/2007***	***2011/2012***	***2012/2013***
Spirits	3.3	3.0	3.0	23.1	20.3	21.1
Wine	8.2	7.7	7.6	10.7	10.4	10.0
Fortified Wine	0.8	0.8	0.7	1.9	1.6	1.5
RTDs	8.6	9.9	10.6	11.0	13.1	13.3
Beer	79.1	78.6	78.1	53.3	54.6	54.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

1.2. VALUE

In value terms beer has only slightly more than half of the market, and has increased its share marginally. The growth is due mostly to growth in the premium beer sector.

The RTD market has shown the most growth; increasing in share from 11.0% to the current 13.3%.

Both the Unfortified and Fortified Wine markets have decreased slightly over the past 12 months.

The Spirits market has declined by nearly two per cent over the past six years, with most of the losses coming from Brandy. Brandy is an integral part of the Wine industry and necessitates further elaboration.

1.3. SPIRITS MARKET

Five years ago (2007/2008) Brandy sold 47,000,000 litres and made up nearly 40% of the Spirits market; this has now declined to only 27.0% (33,400,000 litres); a loss of 13,600,000 litres. If the Brandy market had continued to sell 47 million litres per annum the sales would have been 235 million litres over the five year period. However, Brandy sales over that five year period were only 194.4 million litres, which constitutes a loss of 40.6 million litres or 203 million litres in terms of wine for brandy and distilling wine per annum. The volume losses were due to the growth of Vodka (mostly Smirnoff) and Whisky.

One of the fastest growing spirits brands is Skyy Vodka. During 2010/2011 it had a market share of only 0.6%, increasing to 1.8% in 2011/2012 and further to 3.8%. Skyy Vodka sells at R160 per 750ml bottle, versus R80 for Smirnoff.

The Vodka market has also seen structural change over the past two years with an increase in 'Super Premium' products. These products sell at R150+ per bottle. The products are in alphabetical order: Absolut, Belvedere, Ciroc, Grey Goose, Skyy and Stolichnaya. In 2010/2011 these products had only 1.8% share of the Vodka market, but this has now increased to 7.5%. There are also new product developments in the Vodka market. Mainstay has just launched an Island Vodka at 54% alcohol by volume and three Mainstay Island Fusion flavoured Aperitifs. The packaging is upmarket. There is also a new name in the Spirits market – Iceberg – imported from Canada, with three products, Gin, Vodka and Rum.

In the Rum market there are two new competitors for Captain Morgan Spiced in the form of Red Heart Gold, a Caribbean Spiced and Bacardi Oakheart. All the new developments will put further pressure on the already struggling Brandy market.

Another development over the past two years has been the growth of Johnnie Walker Red. In 2011 it had less than 5% of the Whisky market, but is now ranked 3rd behind Bells and Black and White.

In value terms Brandy makes up only 27.0% of the market currently with Whisky at 44.0%. In volume terms Whisky is now 20% bigger than Brandy and in value terms 63.1% bigger than Brandy.

Table 3 - RSA SPIRITS MARKET

	Volume %			***Value %***		
	2006/2007	***2011/2012***	***2012/2013***	***2006/2007***	***2011/2012***	***2012/2013***
Brandy	40.6	33.0	29.2	37.8	32.8	27.0
Gin	5.5	4.6	4.5	4.5	4.3	3.8
Cane	2.0	1.5	1.3	1.1	1.0	0.8
Vodka	12.1	15.2	16.4	8.8	12.6	13.0
Liqueurs	8.9	8.5	8.6	8.2	6.4	6.0
Whisky	26.6	31.8	34.9	34.5	43.2	44.0
Rum	4.3	5.3	5.1	5.1	6.0	5.4
TOTAL SPIRITS	100.0	100.0	100.0	100.0	100.0	100.0

It is the author's opinion that Brandy faces the following problems:

Brandy is in a price squeeze. There are Whiskies; namely First Watch and Harrier selling at prices below the well-known cut-price brandies of Wellington VO and Olof Bergh. When Richelieu and Klipdrift Export are on special at Makro and other large chain stores, the price would be R89.95. Cheaper products with a good image are available for example Smirnoff at R79.95, R10 less. Furthermore, in broadsheet advertising by the bigger customer groups (like Makro, Spar, etc) you will regularly find well known Whiskies like Vat 69 and Black and White advertised at the same price point and lately lower than Richelieu and Klipdrift. So the price squeeze is both at the top and the bottom.

In the Mainstream market, drinking is to a certain extent an expression of status. This market does not see Brandy as aspirational and prefers to drink Whisky, cognac and Super Premium Vodka. These consumers happily drink cognac. Therefore they do not have a problem with the taste, but they do have a major problem with the image of Brandy.

The new developments in the Vodka and Rum markets will put further pressure on the Brandy market.

Due to the above the author believes that the Brandy market will decline for three more years before it will stabilise.

1.4. WINE MARKET

Over the past five years the Standard price market has declined due to 'Ales' with all the other Wine categories therefore increasing in share. In value terms the Super Premium category represents 34.9% of the market versus 16.3% in volume terms. Likewise Sparkling Wine represents only 2.7% in volume terms, but a significant 8.6% in value. The Sparkling Wine market has declined in volume and value terms over the past year. The Perlé market is increasing in volume and value terms.

Table 4 - RSA WINE MARKET

	Volume %			***Value %***		
	2006/2007	***2011/2012***	***2012/2013***	***2006/2007***	***2011/2012***	***2012/2013***
Sparkling Wine	2.8	3.0	2.7	9.1	9.4	8.6
Super Premium Wine	15.4	16.3	16.3	37.1	35.4	34.9
Premium Wine	24.4	29.7	30.9	19.8	22.8	24.0
Standard Price Wine	42.2	32.3	30.9	19.8	15.7	15.3
Perlé	15.2	18.7	19.1	14.2	16.7	17.1
TOTAL UNFORT's	100.0	100.0	100.0	100.0	100.0	100.0

1.5. RTD MARKET

We mentioned previously that this market is driven by innovation and new products. Two new products that were launched last year have fallen by the wayside, namely Jimmy Jagger and Hunters Extreme Zero.

A trend that has developed over the past three years is the growth of the can market. The trend was started by Hunters Gold and then spread to Hunters Dry and Hunters Extreme. The Hunters range, only in cans, increased from 9.3% last year to 13.8% currently. Both Redds and Brutal fruit from SAB are now also available in cans.

Another trend in this market is the good growth in the 'Energy Sector'. This sector is led by Hunters Extreme and over the year market share has increased from 8.5% to the current 10.9%. Smirnoff Ice Double Guarana was launched onto this market in cans only and is apparently flying out of the stores.

SAB also just launched Flying Fish, a flavoured beer in two flavours, Pressed Lemon and Crushed Orange.

Savanna, the second biggest product in this market, launched their Savanna Dry in a 500ml bottle and have now also launched a Savanna Dark. Taste-wise this product would fit between a Cider and a Beer.

These new launches and developments will definitely fuel the growth of the RTD sector.

2. PAST TWELVE MONTH OVERVIEW AND FORECAST

2.1. LIQUOR MARKET

The total liquor market grew by only 2.0 per cent last year and the same growth is expected over the next year. As mentioned in the previous article; population growth is in excess of 2.0 per cent and bearing in mind the numbers of illegal immigrants, our per capita consumption of legal products continues to decline.

The beer market increased by 1.5% last year and a similar growth is expected over the next year. However, SAB has just released an interim report and claimed they were very happy with their beer growth for April to September; and therefore the 1.5% growth could be conservative.

The RTD sector grew by 6.5% last year. With all the developments and new launches in the AFB sector mentioned earlier, similar growth at 6.6% is expected over the next year, with most of the growth again coming from the AFB sector.

The fortified Wine market declined by 1.8% last year and a further decline of 3.2% over the next twelve months is expected. The biggest sector is the Standard price Fortified Wine market led by Sedgwick's Old Brown. This sector will stay stable, but the Wine Aperitif market will decline due to the growth of illicit spirit products.

The Sparkling Wine market is expected to be flat over the next year, but potential price wars during festive seasons among the three major grocer groups could increase the sales.

The Wine market grew by only 1.4% over the last year, with an expected growth of 2.3% in the coming year. Similar to last year, the growth will be mostly in the Super Premium and Premium sector, with some growth coming from the Perlé sector. The growth in the Wine sector will come mostly from the sector selling at between R20 and R45 per bottle.

The Spirits market grew by 2.0% over last year. The growth came mostly from Vodka and Whisky. Brandy volumes declined by 10% over the last year. A further decline of 14.7% in the Brandy market is expected in 2014 due to the reasons mentioned earlier. In total the Spirits market will decline by nearly 3% due to the Brandy decline and lower growth in Vodka and Whisky. The Spirits market started the 2013 year well, but the 3rd quarter sales were very poor. The trend for the first 9 months of 2013 shows a downturn of 3% for total Spirits.

2.2. ILLICIT LIQUOR

See Table 5. The illicit market is reviewed annually by the industry for submissions to Treasury on excise matters. Data by A C Nielsen, a research company that collates sales data from bottle stores, and Ipsos-Markinor, a research company that does a study for SALBA in the re-distributors sector, are used. Re-distributors are large stores that specialise in selling on to smaller stores and shebeens. Nielsen research is done in A and B class stores and will always underestimate the illicit market, because higher concentrations of illicit products are found in C class stores that cater for the lower end of the market.

In the case of Cane, Nielsen found that 11% of the volumes are in illicit products, with an average price of R69.13 per litre. Please note that only products that sell at least 4,000 litres per annum are included and all prices quoted are per litre. The lowest price found by Nielsen was R62.64 and by Markinor R60.00. The lowest price for a product from the 'Legal Producers' was Cape to Rio cane and Seven Seas and retailed at R88.38 per litre on average.

The Industry also believes that the lowest price for which a cane product can legally be produced is R75.11. This price includes only the cane, bottle, closure, label, excise and bottling costs and excludes overheads, sales and distribution costs. According to packaging feedback, no one can purchase cane, bottles or labels at a lower price than companies like Distell and E W Snell. Why the low prices on illicit products? The cane is mostly smuggled in from Swaziland and no excise is paid.

In the Brandy market, research indicates the illicit market to be at least 2.2% of the market; up from 0.8 in 2011 and 1.4% in 2012. The Industry calculates that a 1 litre bottle of Brandy cannot be produced for less than R82.87. The cheapest 'Legal' brandies would be Wellington VO and Olof Bergh selling at R109.69 on average. However, the research found Good Hope Brandy at R59.61 and Silverstone Brandy at R83.04. If a 20% retail mark-up is deducted, Silverstone would have been selling at a wholesale price of R69.20. How is it done? Smuggle the Cane spirit from Swaziland, add Brandy essence and colouring, and forget to pay the excise.

Table 5 - ILLICIT TRADE

NATURE OF THE PROBLEM - SPIRITS

CANE		2013
Cheapies market share		11.0%
Ave Price		R 69.13
Cape to Rio		R 88.38
Lowest Nielsen Price	Blue Line Cane	R 62.64
Lowest Markinor Price	Maritime Cane	R 60.00
Lowest production Price		R 75.11

BRANDY		
Cheapies market share		2.2%
Ave Price		R 82.26
Wellington VO		R 109.69
Lowest Nielsen Price	Good Hope Brandy	R 59.61
Lowest Markinor Price	Silverstone Brandy	R 83.04
Lowest production Price		R 82.87
Silverstone Brandy before 20% mark-up		R 69.20

2.3. WINE BY TYPE

In the Super Premium market red Wine now represents 44.2% of the volumes and more than half (52.3%) of the value. The rosé sector declined in both volume and value terms. Distell are still the market leaders by far, with DGB and Van Loveren jointly in second place, followed by Robertson. In brand terms Four Cousins is the market leader, followed by Robertson's, Douglas Green and Nederburg.

Distell and Namaqua dominate the Premium Wine market with Robertson's in third place. In brand terms Namaqua dominates, followed by Robertson's, Drostdyhof and Overmeer.

In the Premium sector bag-in-box (BIB) makes up 83.1% of the market in volume terms and 78.3% in value terms, with 5 litre BIB half of the market in volume terms. The 3 litre BIB has increased strongly in market share over the past year, with an expected decline in the share of the 2 litre BIB.

Table 6 - SUPER PREMIUM WINE

	Volume %					*Value %*		
	2009	*2010*	*2011*	*2012*	*2013*	*2011*	*2012*	*2013*
Red	39.0	41.4	43.1	43.2	44.2	50.6	51.2	52.3
White	39.2	38.1	37.6	36.1	35.9	34.1	34.5	34.2
Rosé	21.8	20.5	19.3	20.7	19.9	15.3	14.3	13.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 7 - PREMIUM WINE

	Volume %				
	2009	*2010*	*2011*	*2012*	*2013*
Red	17.6	17.5	17.2	16.1	18.1
White	72.4	67.5	65.2	63.5	61.3
Rosé	10.0	15.0	17.7	20.4	20.6
Total	100.0	100.0	100.1	100.0	100.0

Table 8 - PREMIUM WINE BY CONTAINER TYPE

Category	*Market Share Volume %*			*Market Share Value %*	*Retail Selling Price (R/ℓ)*
	2011	*2012*	*2013*	*2013*	*2013*
Bottle	10.6	11.2	9.2	13.0	33.57
Jug	1.5	2.1	1.8	2.7	24.89
5L Box	50.9	50.0	50.6	44.2	19.43
3L Box	20.8	21.7	25.0	24.4	21.72
2L Box	9.2	8.1	7.5	9.7	28.78
Tetra	6.8	6.7	6.0	6.1	22.46
TOTAL	100.0	100.0	100.0	100.0	

November 2013

Table 9 - RSA LIQUOR MARKET

Year End June	*2007/2008*	*2008/2009*		*2009/2010*		*2010/2011*		*2011/2012*		*2012/2013*		*2013/2014*	
VOLUME = '000L	*Actual*	*Actual*	*Hist Trend*	*Actual*	*Hist Trend*	*Actual*	*Hist Trend*	*Actual*	*Hist Trend*	*Actual*	*Hist Trend*	*Forecast*	*Hist Trend*
BRANDY	47 000	43 750	93.1	41 150	94.1	39 000	94.8	37 100	95.1	33 400	90.0	28 500	85.3
Gin	6 015	5 600	93.1	5 410	96.6	5 320	98.3	5 200	97.7	5 100	98.1	5 000	98.0
Cane	2 150	2 050	95.3	1 890	92.2	1 800	95.2	1 700	94.4	1 500	88.2	1 300	86.7
Vodka	14 900	15 600	104.7	16 450	105.4	16 750	101.8	17 100	102.1	18 800	109.9	19 000	101.1
WHITE SPIRITS	23 065	23 250	100.8	23 750	102.2	23 870	100.5	24 000	100.5	25 400	105.8	25 300	99.6
Liqueurs	10 200	9 000	88.2	9 400	104.4	9 500	101.1	9 600	101.1	9 870	102.8	9 700	98.3
Whisky	32 900	31 250	95.0	31 200	99.8	34 000	109.0	35 700	105.0	40 000	112.0	42 000	105.0
Rum	4 840	4 800	99.2	4 800	100.0	4 950	103.1	5 900	119.2	5 850	99.2	5 700	97.4
TOTAL SPIRITS	118 005	112 050	95.0	110 300	98.4	111 320	100.9	112 300	100.9	114 520	102.0	111 200	97.1
SPARKLING WINE	8 750	8 650	98.9	8 000	92.5	8 320	104.0	8 320	100.0	8 075	97.1	8 075	100.0
HP Natural	45 000	44 750	99.4	42 520	95.0	45 000	105.8	47 000	104.4	48 000	102.1	49 000	102.1
MP Natural	72 000	73 500	102.1	80 000	108.8	82 600	103.3	87 500	105.9	91 150	104.2	95 000	104.2
SP Still	117 200	103 000	87.9	89 180	86.6	91 000	102.0	92 400	101.5	91 000	98.5	91 000	100.0
Perlé	44 800	48 500	108.3	51 300	105.8	52 800	102.9	55 600	105.3	56 350	101.3	58 000	102.9
TOTAL NATURAL	279 000	269 750	96.7	263 000	97.5	271 400	103.2	282 500	104.1	286 500	101.4	293 000	102.3
HP Ports & Sherries	475	460	96.8	450	97.8	440	97.8	410	93.2	390	95.1	370	94.9
HP Aperitifs & Vermouth	485	475	97.9	465	97.9	455	97.8	435	95.6	415	95.4	400	96.4
SP Fortified	19 800	19 000	96.0	18 900	99.5	18 600	98.4	19 500	104.8	20 200	103.6	20 000	99.0
Wine Aperitifs	8 900	9 150	102.8	9 360	102.3	9 100	97.2	8 350	91.8	7 170	85.9	6 500	90.7
TOTAL FORTS	29 660	29 085	98.1	29 175	100.3	28 595	98.0	28 695	100.3	28 175	98.2	27 270	96.8
AFBs	260 000	271 250	104.3	279 000	102.9	282 600	101.3	300 600	106.4	328 000	109.1	355 000	108.2
Spirit Coolers	70 000	75 750	108.2	84 000	110.9	81 800	97.4	84 400	103.2	82 000	97.2	82 000	100.0
RTDs	330 000	347 000	105.2	363 000	104.6	364 400	100.4	385 000	105.7	410 000	106.5	437 000	106.6
SUB TOTAL	756 190	766 535	101.4	773 475	100.9	784 035	101.4	816 815	104.2	847 270	103.7	876 545	103.5
Beer	2 859 000	2 831 000	99.0	2 865 000	101.2	2 937 000	102.5	2 980 000	101.5	3 025 000	101.5	3 070 000	101.5
GRAND TOTAL	**3 329 690**	**3 597 535**	**108.0**	**3 638 475**	**101.1**	**3 721 035**	**102.0**	**3 796 815**	**102.0**	**3 872 270**	**102.0**	**3 946 545**	**102.0**

Notes on how to read Table 9 - LIQUOR MARKET

- This table represents an estimate of the liquor consumption in the RSA and does not include Namibia, Botswana, Lesotho and Swaziland.
- All volumes are in thousands of litres.
- The twelve months are from July to June.
- The historic trends are year on year indices and if lower than 100 reflect a volume decline and if over 100 reflect a volume growth. For instance in the twelve month period 1 July 2010 to 30 June 2011 it is estimated that 39,000,000 litres of Brandy were consumed. This was a decline of 5.2% on the previous year (94.8 – 100). Similarly, over the same period Vodka sold 16,750,000 litres and this was at a growth of 1.8% compared to the previous year (101.8 – 100).
- Super Premium Wine is classified as all Wine selling at prices above R28 per 750ml. Graca and the Saints range would be the lower end of the market.
- Premium Wine is classified as Wines selling in the R16 to R27 (per 750ml) price range and most of the boxes. 5L boxes selling at less than R70 are classified as Standard price. The top end of Premium Wine would be Drostdyhof and Obikwa.
- AFBs are products such as Savanna and Hunters. Spirit Coolers are products such as Smirnoff Spin and Klippies and Cola.